Postal Regulatory Commission
Submitted 3/7/2018 2:56:53 PM
Filing ID: 104146
Accepted 3/7/2018

BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting Rules	:	**Docket No. RM2018-2**

COMMENTS OF UNITED PARCEL SERVICE, INC. ON ADVANCE NOTICE OF PROPOSED RULEMAKING TO REVISE PERIODIC REPORTING REQUIREMENTS
(March 7, 2018)

United Parcel Service, Inc. ("UPS") respectfully submits these comments in response to the Commission's Order No. 4347 (January 5, 2018), seeking comments on the Postal Service's petition seeking potential revisions to its periodic reporting requirements.[1] The petition seeks three things, namely that the Commission (1) "adjust the deadlines for the quarterly Revenue, Pieces, and Weight ("RPW") report, the Quarterly Statistics Report ("QSR"), the quarterly Billing Determinants ("Billing Determinants"), and the monthly National Consolidated Trial Balance and Revenue and Expense Summary ("Trial Balance") report," (2) "modify the format of the Monthly Summary Financial Report, and the definition of 'Operating Revenue' incorporated therein, to make the report more consistent with the Postal Service's quarterly and annual financial reports," and (3) "consider eliminating or modifying any reporting requirements that have become unnecessary or irrelevant since the current periodic reporting rules were first adopted in 2009."[2]

[1] Advance Notice of Proposed Rulemaking to Revise Periodic Reporting Requirements, Dkt. No. RM2018-2 (Jan. 5, 2018), at 4.

[2] United States Postal Service Petition for Rulemaking on Periodic Reporting, Dkt. No. RM2018-2 (Dec. 27, 2017) ("Petition"), at 1.

While UPS does not object to all of the proposed reporting changes by the Postal Service, we are concerned about certain proposals that we believe need greater scrutiny. UPS feels strongly that transparency is paramount for a regulated monopoly, especially one that is increasingly competing against private sector companies without complete structural or financial segregation of the market-dominant and competitive sides of the Postal enterprise. The Commission should ensure that all changes requested by the Postal Service increase, rather than decrease, the quality and quantity of the information that is available to the public.

The Commission should hold the Postal Service to higher accounting and reporting standards than those imposed on their private sector counterparts for two reasons. First, the Postal Service is a federal agency. Federal agencies typically operate on congressionally appropriated funds and the line-item accounting is public and quite transparent. PAEA enables the Postal Service to operate on the revenues that they generate from the business and thus to avoid this type of scrutiny, but the Postal Service is still a government agency and as such should, if anything, be more transparent and held to higher reporting and accounting standards than private companies. Second, the Postal Service continues to invest in its competitive products business that competes directly with the private sector, which is exceedingly rare for federal agencies. For that reason, the Postal Service should be held to at least the same, or higher reporting standards and requirements as its private sector counterparts. Also, UPS believes that the Postal Service's reporting requirements, especially for competitive products, should at a minimum be similar to reporting requirements faced by publicly-traded companies such as UPS and FedEx. Such standards should include the publication of quarterly product segment accounting of revenues and expenses for competitive products, and any unique, Postal Service-specific reporting adjustments, such as definitions of “controllable net income,”[3] should be kept to a minimum.

This is especially important as the Postal Service presses for substantial rate increases on monopoly-bound market-dominant mailers, while simultaneously growing its parcel delivery business at an unprecedented rate. Growing from a distant third place in the parcel delivery market to the largest business-to-consumer delivery company in just a decade is unprecedented. At the same time, the Postal Service’s market-dominant business has declined. For instance, revenues from First-Class Mail have fallen from about $37 billion in FY2006 to about $27 billion in FY2017.[4] In order to ensure that the necessary information is available and understandable to outside stakeholders, transparency is paramount to ensure that the mandates of the Postal Accountability and Enhancement Act of 2006 (“PAEA”) are upheld, and that restrictions on investments in competitive ventures are observed. Not only will greater financial transparency benefit stakeholders, it will help the Commission to better understand how postal resources are allocated, especially if the Postal Service is granted additional pricing flexibility and freedom.

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[3] *See, e.g.*, United States Postal Service, U.S. Postal Service Reports $586 Million Net Loss in Third Quarter; Double-Digit Package Growth (Aug. 10, 2015), https://about.usps.com/news/national- releases/ 2015/pr15_046.htm (stating that in 2015, the Postal Service “has achieved a controllable net income of $1.2 billion).

[4] *See* UNITED STATES POSTAL SERVICE, REVENUE, PIECES, AND WEIGHT BY CLASSES OF MAIL AND SPECIAL SERVICES FOR FISCAL YEAR 1 (2006) AND UNITED STATES POSTAL SERVICE, REVENUE, PIECES, AND WEIGHT BY CLASSES OF MAIL AND SPECIAL SERVICES FOR FISCAL YEAR 1 (2017).

I. UPS SUPPORTS ALIGNING POSTAL SERVICE REPORTING DEADLINES AS LONG AS THEY DO NOT UNDULY DELAY PERIODIC REPORTING

First, the Postal Service requests that the Commission adjust the deadlines for the quarterly Revenue, Pieces, and Weight ("RPW") report; the Quarterly Statistics Report ("QSR"); the quarterly Billing Determinants report, and the monthly National Consolidated Trial Balance and the Revenue and Expense Summary ("Trial Balance") report, to align the deadlines with other financial reporting deadlines.[5] The Postal Service stated that revising the regulations so these deadlines align with other financial reporting deadlines will avoid potential restatements of the earlier filed reports once the data for the later filed reports are finalized.[6]

UPS believes that subject to the condition that the Commission require the submission of periodic reports within timeframes not substantially beyond those imposed on SEC-traded companies in the delivery sector, there is merit in aligning the release of periodic reports, even if it will slightly increase the lag time between the close of a month/quarter and the actual release of the periodic reporting data from 9 to 30 days, depending on the report. Although such reporting delays may result, they appear minor, and subject to its above concerns, UPS supports modifying the reporting deadlines insofar as it relieves the reporting burden on the Postal Service and helps provide more accurate data.

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[5] Petition at 1.

[6] *Id.* at 3.

II. UPS REQUESTS THAT POSTAL SERVICE FINANCIAL REPORTING INCORPORATES DEFINITIONS CONSISTENT WITH THOSE IMPOSED ON PUBLICALLY TRADED PARCEL DELIVERY COMPANIES

The Postal Service requested that the Commission modify the format of the Monthly Summary Financial Report to make the report more consistent with the Postal Service's quarterly and annual financial reports.[7] The Postal Service also stated that the term "Operating Revenue" as it is used in Tables 1 and 2 of the Monthly Summary Financial Report does not correspond with its usage in its Form 10-K statements.[8] The Postal Service requested revisions to Tables 1 and 2 of the Monthly Summary Financial Report so that the items and amounts reported for total operating revenue reconcile on both tables and so that the breakdown for revenue more closely aligns with the format in its other financial reports.[9]

UPS believes that modifications to the Monthly Summary Report, and in particular the definition of operating revenue, to "align the definition of 'operating revenue' with the way that same term is defined for purposes of the Postal Service's 10-Q and 10-K reporting," could hamper the ability of the Commission and other interested parties to look at trends or do any longitudinal analysis. In contrast, UPS supports the idea that the Postal Service's information should be reported consistently with other publically traded companies in the parcel delivery market. UPS does not believe that it is appropriate for the Postal Service, as an increasingly competitive enterprise, to be able to self-define various categories of revenues, expenses and

[7] *Id.* at 1.
[8] *Id.* at 6-7.
[9] *Id.* at 7.

operating income. Rather, UPS believes that the Postal Service should be obligated to report like all other competitive, SEC-regulated companies.

Hence, UPS respectfully requests that the Commission review the parallel SEC reporting definitions for publically-traded delivery companies, and seek to minimize the Postal Service's use of self-defined terms. To the extent that the Postal Service needs to use special definitions in its reporting, the Commission should at least require the Postal Service to reproduce figures in past monthly reports using any proposed new definitions, so as to enable the Commission and interested parties to study trends or conduct longitudinal analysis across time periods more easily. Alternatively, the Commission could require the Postal Service to produce, for the first 12 months after the new definition is adopted, monthly reports that produce two versions of the affected table(s), one using the new methodology and the other using the old methodology. Either solution would alleviate UPS's concerns.

III. UPS REQUESTS THAT THE COMMISSION PROVIDE NOTICE AND OPPORTUNITY FOR COMMENT ON ANY PROPOSAL TO ALTER THE POSTAL SERVICE'S REPORTING REQUIREMENTS

The Postal Service requested that the Commission consider eliminating or modifying any reporting requirements that have become unnecessary or irrelevant since the current periodic reporting rules were first implemented in 2009.[10] The Postal Service requests that the Commission consider eliminating or modifying these requirements to avoid imposing "unnecessary or unwarranted administrative effort and expense" on the Postal Service.[11] While UPS would support eliminating unnecessary

[10] *Id.* at 1.

[11] *Id.* at 9 (citing 39 U.S.C. 3652(e)(1)).

and redundant reporting requirements, it considers the Postal Service's proposal excessively and unnecessarily vague. The Commission should not eliminate any reporting requirement without a dedicated docket to vet specific proposals, giving all interested stakeholders an opportunity to comment. UPS finds value in reports that are required under Section 3050, and we urge the Commission to carefully evaluate the impact of discontinuance before determining any reporting requirement unnecessary.

IV. UPS REQUESTS THE COMMISSION TO REQUIRE SEGMENT LEVEL REPORTING FOR COMPETITIVE PRODUCTS

UPS requests that the Commission, as part of this docket, consider requiring the Postal Service to provide segment-level reporting separately for competitive products, as defined by the Financial Accounting Standards Board ("FASB") accounting standards code ("ASC") 280.

ASC 280 requires separate revenues and expenses be disclosed for material products within a company if:

> a. It engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same public entity).
>
> b. Its operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.
>
> c. Its discrete financial information is available.[12]

The FASB standard also provides guidance as follows:

> "The method for determining what information to report is referred to as the management approach. The management approach is based on the way that management organizes the segments within the public entity for making operating decisions and assessing performance. Consequently, the segments are evident from the structure of the public entity's internal organization, and

[12] *See* ASC 280-10-50-1 (disclosure requirements).

> financial statement preparers should be able to provide the required information in a cost-effective and timely manner."[13]

For competitive products, the Postal Service meets all three characteristics set forth by the FASB. The Postal Service may claim that the entire organization is one segment because of the close integration of their market-dominant and competitive products, so, not surprisingly, they may find it more convenient to report as one segment. Yet, this ignores the fact that they are still a federal agency competing directly with the private sector, so this close integration, if anything, is clearly cause for segment-level reporting, and we believe that the Postal Service's claims that the entire organization is "one segment" is invalid.[14] Even many private companies that use a shared infrastructure, including UPS and FedEx, report on the results of separate and distinct business segments.

While Congress did not require the kind of structural separation of the monopoly and competitive sides of the Postal Service that are imposed on many utilities, PAEA clearly required a form of accounting separation. That Act created within the Treasury two distinct accounts, a Postal Service Fund and a Competitive Products Fund. *See* 39 U.S.C. §§ 2003, 2011. The requirements on the Competitive Products Fund ought to be what one would expect of a non-government business, separate from the Postal Service's market-dominant business, as the Competitive Products Fund is to receive all revenues and receipts associated with, or allocated to competitive products, and payment of all costs associated with competitive products are to come from only that Fund.

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[13] *See* ASC 280-10-05-3.

[14] *See, e.g.*, UNITED STATES POSTAL SERVICE, FORM 10-K 3 (2017) ("[W]e operate as a single segment throughout the U.S., its possessions and territories.").

The required separation extends to a level of remarkable detail. Even judgments with respect to claims arising out of competitive products must come solely from the Competitive Products Fund. If receipts from competitive products are excess to current needs, then the law requires their investment in securities for that purpose. The authority of the Postal Service to borrow money or issue obligations is provided separately for market dominant products and competitive products. 39 U.S.C. § 2005(a)(1). The authority of the Postal Service to pledge assets exists only to the extent the assets are "not related to the provision of competitive products." 39 U.S.C. § 2005(b)(2). Further, the imputed federal income tax of PAEA is imposed only on the competitive products side of the Postal Service. 39 U.S.C. § 3634.

This aforementioned list of separate financial and accounting statutory requirements between market dominant and competitive products is by no means exhaustive. Yet, in practice the Commission has tolerated what amounts to commingling of these accounts for all but what appears as one day per year.

The fact that the Postal Service, in the ACR2017 docket, disclosed that their balance sheet for competitive products only lists ClickNShip assets, with a total fair market value likely under $55,000, is an example of incomplete and opaque reporting that has been allowed to exist since the passage of the PAEA.[15]

The Postal Service asked, and received from Congress and the Commission the tools to compete as a competitive business. It is high time that they report the financials

[15] *See* Responses of the Postal Service to Questions 1-15 of Chairman's Information Request No. 8, Dkt. No. ACR2017 (Jan. 29, 2018), at Q.5(b) (citing USPS-FY17-39).

of that business as Congress required with separate and transparent accounting ledgers.

CONCLUSION

At this time, UPS does not object to the Postal Service's proposal to align the deadlines for its quarterly reporting, and does not object to aligning its reporting definitions, so long as the alignment of deadlines does not unduly delay the publication deadlines, and so long as SEC reporting definitions for publically traded companies in the parcel delivery space are followed. UPS is concerned about potential alterations to requirements for public reporting, and requests the Commission to provide advance notice and a request for comments prior to making any such determination. Finally, UPS believes that the Commission should impose the same periodic reporting requirements, by product segment, for competitive products on a quarterly and annual basis.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By: /s/ Steig D. Olson

Steig D. Olson
Quinn Emanuel Urquhart & Sullivan, LLP
51 Madison Ave., 22nd Floor
New York, NY 10010
(212) 849-7152
steigolson@quinnemanuel.com

Attorney for UPS